

**REPORT OF THE AUDIT OF THE
FORMER ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Rockcastle County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$119,648 from the prior year, resulting in excess fees of \$8,464 as of December 31, 2006. Revenues decreased by \$34,624 from the prior year and expenditures increased by \$85,024.

Report Comments:

- 2006-01 The Former Sheriff Should Have Deposited Receipts Intact On A Daily Basis
- 2006-02 The Former Sheriff Did Not Consistently Issue Receipts For All Transactions
- 2006-03 The Former Sheriff Should Have Maintained And Properly Monitored The Financial Records For The Fee Account
- 2006-04 The Former Sheriff Should Have Properly Maintained And Monitored The Drug Awareness And Resistance Education (DARE) Fund
- 2006-05 The Former Sheriff Should Have Properly Maintained And Monitored The State Asset Forfeiture Account
- 2006-06 The Former Sheriff Should Have Properly Maintained And Monitored The Federal Asset Forfeiture Account
- 2006-07 The Former Sheriff's Office Lacked Adequate Segregation Of Duties
- 2006-08 The Former Sheriff Should Have Instructed The Financial Institution To Not Accept Any Checks Made Payable To Cash
- 2006-09 The Former Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court
- 2006-10 The Former Sheriff Should Have Submitted Quarterly Financial Statements To The Department for Local Government On A Timely Basis
- 2006-11 The Former Sheriff Expended \$334 In Disallowed Expenditures From The Drug Awareness And Resistance Education (DARE) Fund
- 2006-12 The Former Sheriff Participated In Related Party Transactions
- 2006-13 The Former Sheriff Expended \$7,319 In Disallowed Expenditures From The Federal Asset Forfeiture Account
- 2006-14 The Former Sheriff Should Have Complied With Bidding Requirements
- 2006-15 The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of August 21, 2006 and December 31, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$575,968
- Uncollateralized and Uninsured \$530,061

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT.....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENTS AND RECOMMENDATIONS	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Former Rockcastle County Sheriff
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 15, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Former Rockcastle County Sheriff
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-01 The Former Sheriff Should Have Deposited Receipts Intact On A Daily Basis
- 2006-02 The Former Sheriff Did Not Consistently Issue Receipts For All Transactions
- 2006-03 The Former Sheriff Should Have Maintained And Properly Monitored The Financial Records For The Fee Account
- 2006-04 The Former Sheriff Should Have Properly Maintained And Monitored The Drug Awareness And Resistance Education (DARE) Fund
- 2006-05 The Former Sheriff Should Have Properly Maintained And Monitored The State Asset Forfeiture Account
- 2006-06 The Former Sheriff Should Have Properly Maintained And Monitored The Federal Asset Forfeiture Account
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- 2006-08 The Former Sheriff Should Have Instructed The Financial Institution To Not Accept Any Checks Made Payable To Cash
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- 2006-14 The Former Sheriff Should Have Complied With Bidding Requirements
- 2006-15 The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 15, 2008

ROCKCASTLE COUNTY
 DARRELL DOAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	21,284
State - Kentucky Law Enforcement Foundation Program Fund			15,494
State Fees For Services:			
House Bill 452 - Security Service	\$	34,887	
Sheriff's Fees		10,809	
Prisoner Transport		<u>877</u>	46,573
Circuit Court Clerk:			
Arrest Fees		3,895	
Littering Fees		<u>129</u>	4,024
Fiscal Court			81,615
County Clerk - Delinquent Taxes			2,605
Commission On Taxes Collected			108,068
Fees Collected For Services:			
Auto Inspections		3,947	
Accident and Police Reports		577	
Executions		12,871	
Transporting Prisoners		4,670	
Carrying Concealed Deadly Weapon Permits		5,545	
Arrest Fees From Other Counties		170	
Advertising Fees		1,282	
Advertising Costs		1,095	
10% Add-On Fee		<u>20,073</u>	50,230
Other:			
Payroll From Federal Asset Forfeiture Account		5,273	
Payroll From State Asset Forfeiture Account		4,930	
DARE Payroll Reimbursement		1,920	

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 DARRELL DOAN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Revenues (Continued)

Other: (Continued)

Travel Reimbursement From Other Counties	\$ 1,519	
Miscellaneous	<u>2,030</u>	\$ 15,672
Interest Earned		<u>443</u>
Total Revenues		346,008

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 166,418
Kentucky Law Enforcement Foundation Program Fund	15,494
Other Salaries	23,791

Employee Benefits-

Employer's Share Social Security	19,647
Employer's Share Retirement	22,033

Materials and Supplies-

Office Materials and Supplies	1,950
Uniforms	74

Auto Expense-

Gasoline	9,255
Maintenance and Repairs	45

Other Charges-

Bond	23
Postage	18
Telephone	3,079
Computer Maintenance	351
Film	345
Carrying Concealed Deadly Weapon Permits	2,655
Additional Bookkeeping Services	1,950
Miscellaneous	<u>1,386</u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures (Continued)

Total Expenditures		\$ 268,514
Less: Disallowed Expenditures		
Floral Purchases	\$ 186	
Donation	100	
Advertisement	<u>25</u>	<u>311</u>
Total Allowable Expenditures		<u>268,203</u>
Net Revenues		77,805
Less: Statutory Maximum		<u>69,341</u>
Excess Fees Due County for 2006 at Completion of Audit		<u>\$ 8,464</u>

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2006
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff did not enter into a written security agreement with the depository institution to protect deposits.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On August 21, 2006 and December 31, 2006, \$575,968 and \$530,061, respectively, of the former Sheriff's bank balance were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$575,968
- Uninsured and Unsecured \$530,061

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. State Asset Forfeiture Account

During 2006, the Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in state drug-related convictions. These funds are to be used for law enforcement activities and are not available for excess fee purposes. As of January 1, 2006, this account had a beginning balance of \$736. During 2006, funds of \$15,608 were received and \$7,912 was expended, leaving a balance of \$8,432 as of December 31, 2006.

Note 5. Federal Asset Forfeiture Account

During 2006, the Sheriff's office received proceeds from the Federal Government for participating in investigations or prosecutions that resulted in forfeited federal drug money. These funds are to be used for law enforcement activities, including training, equipment and operations, facilities and equipment, drug education and awareness, etc. These funds are not available for excess fee purposes. As of January 1, 2006, this account had a beginning balance of \$21,054. During 2006, funds of \$710,764 were received and \$104,709 was expended, leaving a balance of \$627,109 as of December 31, 2006.

Note 6. Drug Awareness Resistance Education Fund

During 2006, the Sheriff's office received proceeds from fund raising events and monetary donations to be deposited into a Drug Awareness and Resistance Education (DARE) fund. Receipts from this fund are to be spent on the education of drug awareness and are not available for excess fee purposes. As of January 1, 2006, this account had a beginning balance of \$1,820. During 2006, funds of \$28,362 were received and \$25,170 was expended, leaving a balance of \$5,012 as of December 31, 2006.

Note 7. Related Party Transactions

During 2006, the Sheriff's office expended a total of \$4,803 of Drug Awareness Resistance Education (DARE) funds to family members of an employee of the Rockcastle County Sheriff's Office. One of the employee's sons received \$4,325 for musical performances at two separate fund raising events. The same employee's wife and other son received \$478 as reimbursement for supply purchases. Because of the nature of the relationship between the payees and the employee, these transactions are considered related party transactions.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
The Honorable Darrell Doan, Former Rockcastle County Sheriff
The Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Rockcastle County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated July 15, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Rockcastle County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Rockcastle County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described as items 2006-01, 2006-02, 2006-03, 2006-04, 2006-05, 2006-06, 2006-07, and 2006-08 in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above as items 2006-03, 2006-06, 2006-07, and 2006-08 to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Rockcastle County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2006-09, 2006-10, 2006-11, 2006-12, 2006-13, 2006-14, and 2006-15.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

July 15, 2008

COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2006-01 The Former Sheriff Should Have Deposited Receipts Intact On A Daily Basis

The former Rockcastle County Sheriff did not deposit monies on a daily basis. A test of daily receipts was performed for a randomly selected day in November 2006, and the results indicated that the deposit was not made timely. The auditor expanded testing to encompass the entire month of November 2006. During the month of November, the former Sheriff made only seven (7) deposits.

The Department for Local Government (DLG) was given the authority by KRS 68.210 to prescribe a uniform system of accounts. Page 61 of the 2006 Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual states a minimum requirement of "Daily deposits intact into a federally insured banking institution." The former Rockcastle County Sheriff should have taken the steps necessary to be in compliance with KRS 68.210.

Sheriff's Response: None.

2006-02 The Former Sheriff Did Not Consistently Issue Receipts For All Transactions

The former Rockcastle County Sheriff did not issue receipts for all transactions. The test of daily receipts performed encompassed the entire month of November. During the month of November, only seven (7) receipts were issued and they were not in numerical order. KRS 64.840(1) states, "Except for taxes collected on behalf of the state for which standard receipt forms had been supplied by the state prior to 1974, all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer, if the fine, forfeiture, tax, or fee is paid:

- (a) In cash;
- (b) By a party appearing in person to pay; or
- (c) By check, credit card, or debit card account received through the mail, if the party includes an addressed, postage-paid return envelope and a request for receipt"

The former Rockcastle County Sheriff should have issued a receipt for all fines, forfeitures, taxes, and fees paid that met the criteria above to be in compliance with KRS 64.840.

Sheriff's Response: None.

2006-03 The Former Sheriff Should Have Maintained And Properly Monitored The Financial Records For The Fee Account

The former Rockcastle County Sheriff's financial records for the 2006 fee account were not properly maintained and monitored as noted in the following:

- (a) The former Sheriff maintained two different numerically sequenced receipt books. Prenumbered receipts were rarely issued, and only one of the receipt books could be located.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-03 The Former Sheriff Should Have Maintained And Properly Monitored The Financial Records For The Fee Account (Continued)

- (b) The former Sheriff did not accurately prepare daily checkout sheets. As previously stated, prenumbered receipts were rarely issued, which resulted in some receipts being unidentifiable. The totals reflected per the daily checkout sheet did not always agree with the amount deposited. This was indicative that reconciliations were not being performed. The former Sheriff's bookkeeper utilized the daily checkout sheets to post listings to the receipts ledger.
- (c) The former Sheriff's receipts and disbursements ledgers had many recording and mathematical errors. The auditor noted many instances where the dates were incorrect for the amounts posted, and columns were incorrectly totaled in the receipts ledger. The disbursements ledger did not include check numbers for the posted amounts, which resulted in the auditor having to recap the cancelled checks. These errors resulted in the auditor adjusting and reclassifying over one hundred eighty (180) entries within the ledgers.
- (d) The former Sheriff's quarterly financial report for the period ended December 31, 2006 did not accurately reflect the activity of the official's fee account. The former Sheriff's quarterly financial report reflected \$20,230 less revenue than was posted to the receipts ledger and expenses that were \$24,421 less than the disbursements ledger.

Because of the numerous issues discussed above, which resulted in numerous audit adjustments approved by the former sheriff and made by the auditor, the former Sheriff's financial records were not in compliance with the Uniform System of Accounts as required by the State Local Finance Officer. Pursuant to professional auditing standards, it is also necessary to report that the bookkeeper did not appear to be qualified to efficiently perform the duties required for the position. Additionally, the former Sheriff should have ensured that the bookkeeper employed in his office was adequately knowledgeable of transactions, processes, and requirements of the office. This could have been accomplished through additional training and assistance provided by the Department for Local Government. Furthermore, the former Sheriff should have closely monitored accounting records prepared by the bookkeeper and verified them for accuracy.

Sheriff's Response: None.

2006-04 The Former Sheriff Should Have Properly Maintained And Monitored The Drug Awareness And Resistance Education (DARE) Fund

The former Sheriff opened a Drug Awareness and Resistance Education (DARE) account on April 14, 2005. All accounting duties of the DARE fund were delegated to one of his deputies. The former Sheriff did not appear to monitor the account activity or accounting practices of the fund. During our review of the DARE fund, the following was noted:

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-04 The Former Sheriff Should Have Properly Maintained And Monitored The Drug Awareness And Resistance Education (DARE) Fund (Continued)

- a) The deputy delegated to maintain the account did not record entries into receipts and disbursements ledgers. Deposit slips were not detailed and a check register wasn't maintained.
- b) Identification of all incoming receipts was not possible because proper records were not maintained. Monies received into the DARE fund mostly come from the Federal Asset Forfeiture Account, local citizen and business donations, and profits from DARE fundraising events.
- c) Records were not maintained for ticket sales to DARE fundraising events. The auditor couldn't determine if amounts deposited were actual amounts collected at fundraisers.
- d) In 2006, expenditures totaling \$4,803 were considered related party transactions, and \$334 was considered as disallowed expenditures.
- e) The former Sheriff did not deposit DARE receipts into an interest bearing checking account. KRS 66.840 (4) states, "county officials, may, and at the redirection of the fiscal court shall, invest and reinvest money subject to their control." These funds could have generated investment income to fund additional drug awareness and resistance education needs.

Pursuant to professional auditing standards, the auditor feels it necessary to report that it does not appear the deputy delegated to maintain the former Sheriff's DARE Fund was capable of performing his required duties. Detailed receipts and disbursements ledgers not being maintained, which caused the auditor to be unable to identify many receipts. The former Sheriff's DARE Fund was not in compliance with the Uniform System of Accounts as required by the State Local Finance Officer.

The former Sheriff should have monitored the DARE account more closely and required that the account have financial records that were in compliance with the Uniform System of Accounts.

We recommend that the Rockcastle County Ethics Commission closely review this account for appropriateness.

Sheriff's Response: None.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-05 The Former Sheriff Should Have Properly Maintained And Monitored The State Asset Forfeiture Account

The former Rockcastle County Sheriff had a State Asset Forfeiture account. All accounting duties of the State Asset Forfeiture Account were delegated to one of his deputies. The former Sheriff did not appear to monitor the account activity or accounting practices of the account. During our review of the State Asset Forfeiture account, the following was noted:

- a) The State Asset Forfeiture account bookkeeper did not record entries into a receipts and disbursements ledger. Additionally, deposit slips did not include detailed source information, and a check register wasn't maintained.
- b) The former Sheriff's State Asset Forfeiture account received two deposits totaling \$15,609 during 2006. The Unlawful Narcotics Investigation Treatment and Education (UNITE) program provided \$9,023. The other deposit during 2006 was \$6,586, but its source could not be determined.
- c) \$4,930 was expended from the former Sheriff's State Asset Forfeiture account for payroll purposes. Any monies received from the UNITE program are not allowed to be expended for payroll disbursements.
- d) The former Sheriff did not deposit State Asset Forfeiture receipts into an interest bearing checking account. KRS 66.840(4) states, "county officials, may, and at the redirection of the fiscal court shall, invest and reinvest money subject to their control." These funds could have generated investment income to fund additional law needs.

The former Rockcastle County Sheriff did not appear to properly monitor activities of the State Asset Forfeiture account. Pursuant to professional auditing standards, it is necessary to report that the deputy delegated as bookkeeper for the State Asset Forfeiture account did not appear to be qualified to efficiently perform the duties required for the position. The former Sheriff's State Asset Forfeiture financial records were not in compliance with the Uniform System of Accounts as required by the State Local Finance Officer. The former Rockcastle County Sheriff should have monitored the State Asset Forfeiture Account more closely and required that the account have financial records that were in compliance with the Uniform System of Accounts.

We recommend that the Rockcastle County Ethics Commission closely review this account for appropriateness.

Sheriff's Response: None.

2006-06 The Former Sheriff Should Have Properly Maintained The Federal Asset Forfeiture Account

The former Rockcastle County Sheriff's Federal Asset Forfeiture Account had a balance of \$21,054 as of January 1, 2006. During 2006 the Former Sheriff deposited \$710,764 and disbursed \$104,709 from the Federal Asset Forfeiture account resulting in a balance of \$627,109 on December 31, 2006.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-06 The Former Sheriff Should Have Properly Maintained The Federal Asset Forfeiture Account (Continued)

The Department of Treasury's Guide To Equitable Sharing for Foreign Countries and Federal, State, and Local Law Enforcement Agencies states, "All participating state and local law enforcement agencies must implement standard accounting procedures and internal controls to track equitable shared monies and tangible property."

The following issues were noted while reviewing the former Rockcastle County Sheriff's Federal Asset Forfeiture Account:

- a) The former Sheriff did not enter into a written agreement that would require the depository institution to pledge or provide sufficient collateral to protect deposits of the Federal Asset Forfeiture account.
- b) The former Sheriff did not deposit Federal Asset Forfeiture receipts into an interest bearing account.
- c) The former Sheriff delegated all accounting duties of the Federal Asset Forfeiture account to one of his deputies. The former Sheriff did not appear to monitor the account during the calendar year.
- d) Receipts and disbursements ledgers were not maintained for the former Sheriff's Federal Asset Forfeiture account.
- e) Bank reconciliations were not performed for the former Sheriff's Federal Asset Forfeiture account.
- f) Proper and accurate documentation was not maintained for all disbursements made from the former Sheriff's Federal Asset Forfeiture account.
- g) Disbursements from the Federal Asset Forfeiture Account did not require the former Sheriff's approval before they were made.
- h) Checks made payable to cash totaled \$11,200.
- i) Checks made payable directly to deputies totaled \$4,493.

Pursuant to professional auditing standards, it is necessary to report that the deputy delegated as bookkeeper for the Federal Asset Forfeiture account did not appear to be qualified to efficiently perform the duties required for the position. The former Rockcastle County Sheriff's Federal Asset Forfeiture financial records were not in compliance with the Uniform System of Accounts as required by the State Local Finance Officer.

These issues will be reported to the Department of the Treasury's Executive Office for Asset Forfeiture as required.

We recommend that the Rockcastle County Ethics Commission closely review this account for appropriateness.

Sheriff's Response: None.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-07 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Rockcastle County Sheriff's office lacked adequate segregation of duties. The former Sheriff did not appear to monitor or involve himself in any accounting issues in regards to the fee account. During the course of evaluating the office's controls, the following was noted:

- (a) The former Sheriff's bookkeeper performed general cashier functions.
- (b) The former Sheriff's bookkeeper solely performed all general and subsidiary ledger functions.
- (c) The former Sheriff's bookkeeper prepared all accounts receivable and payable records.
- (d) The former Sheriff's bookkeeper opened the incoming mail and posted any mail receipts to the ledgers.
- (e) The former Sheriff's bookkeeper was an authorized check signer for the fee account. In most cases the bookkeeper prepared the checks, posted them to the ledgers, and mailed the disbursements without any appearance of required approval.
- (f) The former Sheriff's bookkeeper prepared any reconciliations of the receipts and disbursements ledger to bank records. However, the bookkeeper did not appear to consistently or accurately perform these reconciliations.

The former Sheriff's bookkeeper did not appear to be monitored in any financial area of the office. This resulted in the bookkeeper having access to all cash receipts and disbursements and financial records of the fee account. The former Sheriff did not have any controls in place to offset the lack of segregation of duties.

The former Rockcastle County Sheriff could have done the following to offset this material control weakness:

- (1) The former Sheriff could have recounted the deposit prepared by the bookkeeper and personally deposited the funds in the financial institution.
- (2) The former Sheriff could have conducted surprise cash counts.
- (3) The former Sheriff could have reconciled bank records to the receipts and disbursements ledgers and compared to the bookkeeper's reconciliations.
- (4) The former Sheriff could have required dual signatures on the fee account checks.
- (5) The former Sheriff could have examined checks prepared by the bookkeeper and compared to the invoices being paid. Initialing the invoices at the time of examination could have indicated this.
- (6) The former Sheriff could have personally mailed all disbursements.
- (7) The former Sheriff could have prepared an annual settlement and personally presented it to the fiscal court.

Sheriff's Response: None.

ROCKCASTLE COUNTY
 DARRELL DOAN, FORMER SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2006
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
 (Continued)

2006-08 The Former Sheriff Should Have Instructed The Financial Institution To Not Accept Any Checks Made Payable To Cash

During the review of the former Rockcastle County Sheriff's Federal Asset Forfeiture expenditures, we found that four (4) checks were written as pay to the order of cash. The first check written to cash was in the amount of \$200. The memo portion of the check included a criminal case number, and supporting documentation was maintained which showed photocopies of actual currency received after check was cashed. The auditor was able to verify the first check was used in a criminal case. The second check written to cash was in the amount of \$10,000. The memo portion of this check didn't include any notations, and no form of supporting documentation was maintained. However, the auditor noted that within the next seven days an unidentifiable \$9,600 cash deposit was made into the Federal Asset Forfeiture account. This left \$400 unaccounted for. The third check written to cash was in the amount of \$500. The memo portion of the check stated "Buy Money." There wasn't any supporting documentation maintained for this check, and the bookkeeper could not provide the auditor with any information in regards to its use. The fourth check written to cash was also in the amount of \$500. The memo portion of this check didn't include any notations. There wasn't any supporting documentation maintained for this check, and the bookkeeper could not provide the auditor with any information in regards to its use. By allowing checks to be written out to cash, \$1,400 of the Rockcastle County Federal Asset Forfeiture monies is unaccounted for. It is a best practice to instruct the bank when starting the account not to accept any checks made payable to "Cash." We recommend the Rockcastle County Ethics Commission review these transactions for appropriateness.

Sheriff's Response: None.

STATE LAWS AND REGULATIONS

2006-09 The Former Sheriff Should Have Submitted An Annual Settlement To The Fiscal Court

During the course of the audit, we noted the former Rockcastle County Sheriff did not present his annual settlement to the Fiscal Court for 2006. KRS 134.310(5) states, "In counties containing a population less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered as commissions for collecting state, county, and school taxes;
- (b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

The former Rockcastle County Sheriff should have presented an annual settlement for 2006 to the Fiscal Court to be in compliance with KRS 134.310(5).

Sheriff's Response: None.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-10 The Former Sheriff Should Have Submitted Quarterly Financial Statements To The Department for Local Government On A Timely Basis

On March 23, 2007 the Department for Local Government (DLG) sent notice to the former Rockcastle County Sheriff that he had not submitted the quarterly financial report for the period ended December 31, 2006. The Instructional Guide For County Budget Preparation and State Local Finance Officer Policy Manual requires all sheriffs to prepare quarterly financial reports and submit the reports by the 30th day following the close of each quarter. The former Sheriff's quarterly report for the period ended December 31, 2006 was not submitted to DLG until after the former Sheriff received notice. The former Rockcastle County Sheriff should have prepared and submitted each quarterly financial report within thirty days after the close of each quarter.

Sheriff's Response: None.

2006-11 The Former Sheriff Expended \$334 In Disallowed Expenditures From The Drug Awareness And Resistance Education (DARE) Fund

Expenditures for civic membership dues, or expenditures without proper and accurate documentation are subject to an audit comment relating to KY Const. S 173; KRS 61.190 (repealed and replaced with KRS 522.050) and 132.601(1); and Funk v. Milliken, 317 S.W.2d 499(KY 1958). During our review of the Drug Awareness and Resistance Account (DARE) expenditures, we found \$170 in reimbursement payments without any supporting documentation, and \$164 in personal membership dues for a deputy. These expenditures are disallowed and total \$334. The former Sheriff should have not disbursed any monies from his official account for unallowable expenditures. We recommend the former Sheriff deposit personal funds of \$334 to Rockcastle County Sheriff's DARE account.

Sheriff's Response: None.

2006-12 The Former Sheriff Participated In Related Party Transactions

During 2006, the former Sheriff paid one of his deputies' son \$4,325 for music performances at two Drug Awareness and Resistance Education (DARE) events. The former Sheriff paid \$478 to the same deputy's wife and other son for reimbursement of expenses. We recommend that the Rockcastle County Ethics Commission review these transactions for appropriateness.

Sheriff's Response: None.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-13 The Former Sheriff Expended \$7,319 In Disallowed Expenditures From The Federal Asset Forfeiture Account

During our review of the former Rockcastle County Sheriff's Federal Asset Forfeiture account we noted disallowed expenditures totaling \$7,319. The disallowed expenditures were as follows:

- a) Cellular telephone charges made by unidentifiable users totaling \$1,478.
- b) Cellular telephone early termination fees totaling \$1,029.
- c) Cellular telephone service charges due to late payment fees totaling \$31.
- d) Late payment penalties to other vendors totaling \$100.
- e) Payments to vendors without proper or accurate supporting documentation totaling \$15.
- f) Reimbursements to deputies without proper or accurate supporting documentation totaling \$866.
- g) Direct payment to deputies without any documentation totaling \$2,400.
- h) Checks made payable to "Cash" without any documentation totaling \$1,400.

According to the case of Funk v. Milliken, 317 S.W.2d499 (Ky. 1958), expenditures claimed by a fee officer must be supported by proper and accurate documentation in order to be allowable. We recommend the former Rockcastle County Sheriff deposit personal funds of \$7,319 in the Rockcastle County Federal Asset Forfeiture account to cover the disallowed expenditures.

Sheriff's Response: None.

2006-14 The Former Sheriff Should Have Complied With Bidding Requirements

During 2006, the former Rockcastle County Sheriff purchased a 2007 Ford Crown Victoria for the amount of \$21,664. The former Sheriff did not publish an advertisement for bids before making the purchase. KRS 424.260 states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." The former Rockcastle County Sheriff should have advertised for bids in the newspaper to be in compliance with KRS 424.260.

Sheriff's Response: None.

ROCKCASTLE COUNTY
DARRELL DOAN, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2006-15 The Former Sheriff Should Have Required The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On August 21, 2006, \$575,968 of the former Rockcastle County Sheriff's deposits of federal asset forfeiture funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff should have required the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. The former Sheriff should have also entered into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: None.

